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CAR ASING MANAGEMENT MAGAZINE

THE POWER AND PROBLEMS OF LEASING: *AF*'s SURVEY

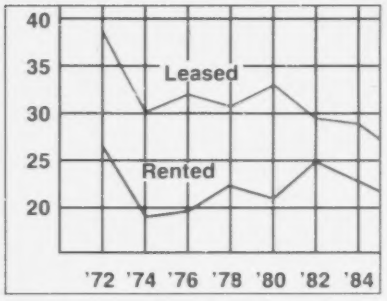
LEASING

Tax Reform Impact
Insurance Crisis
Open- vs. Closed-End
Managing Vans

automotive FLEET
CAR AND LIGHT TRUCK FLEET AND LEASING MANAGEMENT MAGAZINE

JANUARY 1987
VOL. 26, NO. 3

Influencing the management of 4,584,000 cars and 1,970,000 light trucks and vans in business, leasing, rental, utility, government, police and taxi fleets.



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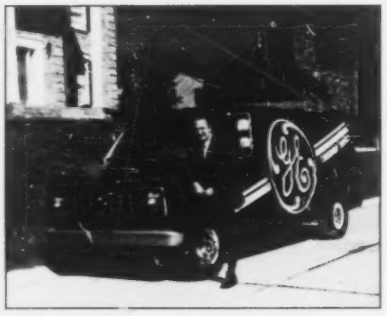

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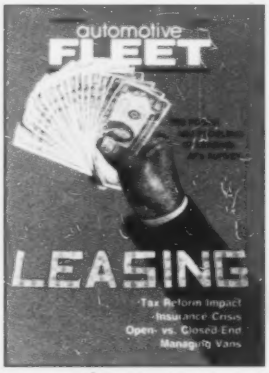

On the cover: The historic Tax Reform Act of 1986 means new problems as well as new profit potential for the vehicle leasing community. We look at both in a special "state-of-the-industry" report that begins on page 23.

Features

23 **Open- Versus Closed-End Leasing**
Assessing the most popular leasing options for fleets.

28 **Thirteenth Biennial Lease/Rental Survey**
Cars cost more than ever, but monthly revenues are down.

34 **Leasing and Rental Industry Problems**
Insurance is the Number One problem, say survey respondents.

40 **Tax Reform Impact on Vehicle Lessors**
AALA analyzes depreciation, AMT, and repeal of the ITC.

46 **The New Challenge of Asset Management**
Eugene Arbaugh of PH&H says it's now "the highest priority."

50 **Leasing Among Public Service Fleets**
Short-term leases, lease-purchase agreements predominate.

60 **Coping With the Insurance Crisis**
Experts tell why it occurred and what you can do about it.

66 **Tax Reform May Benefit Banks in Leasing**
The field should open up for banks without tax appetites.

72 **Consumers Eyeing Advantages of Leasing**
The lost tax benefits in buying will spur leasing.

78 **A Unique Employee Leasing Program**
LMV offers personal cars at below-retail rates.

82 **Managing Vans**
A candid Q&A with GE's savvy Vic Miska.

Departments

Letters	11	Used-Car Prices	106
Hotline	13	New Products	108
Industry News	15	Classified	108
Personnel Personals	90	Gas Prices	110
Leasing	94	Calendar	111
Rental	100	Ad Index	111
Light-Truck & Van News	101	Editorial	112

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Every two years since 1966, AF *has assessed the lease/rental industry with a survey of trends from typical vehicle holding periods to average monthly revenues. The '86 results are now in, and they include more than a couple of surprises.*

Thirteenth Biennial Lease/Rental Survey

While lease/rental cars and trucks cost more today than they ever have, the monthly revenue they generate is better than $100 *less* than it was two years ago. The typical unit's age and average annual mileage, however, may be edging downward.

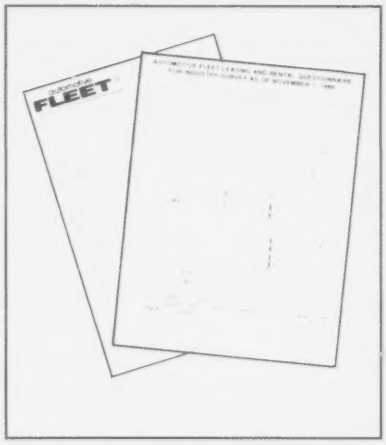
Those were a few of the key findings of the Thirteenth Biennial Lease/Rental Survey conducted by *Automotive Fleet* Magazine. *AF* took the pulse of the industry late last year by mailing detailed questionnaires to 4,000 U.S. leasing and rental firms. Three-hundred-fifty-six responses were received; of these 282 contained usable answers.

According to those usable responses, 32 percent of the lease/rental companies were affiliated with new-car dealers, while 68 percent were not. Dealer affiliates rose from 26.1 percent of respondents in the 1984 survey, topping 30 percent for the first time since 1980's 34.9. (The all-time high was 41.7 percent in '78.)

Most of our respondents (86 percent) lease cars, as opposed to 14 percent who rent them. Of those who lease, most are fleet-lessors (81 percent), compared to 19 percent in retail or individual leasing. (That's still considerably less than the high of 26 percent in consumer leasing in both '70 and '82.)

Of those who lease, open-end leases are most popular (59 percent), compared to 23 percent in net leasing and 18 percent in the full- or partial-maintenance option. Those figures show a one percent rise for finance leases since '84; closed-end dropped during the period by the same percentage.

Intermediate-sized cars continued to be most prevalent in the typical lease/rental fleet, even though intermediate share fell from 51 percent



in '84 to 43 percent. Standard-size cars were up two percent to 25 percent of the fleet; luxury cars were down from nine percent in '84 to just eight percent. The real growth was among small cars: subcompacts went from seven to 12 percent, compacts, from 10 to 12.

Cars remained in the average leasing fleet for 32 months, down just a few days from 1984's 32.1, but still the second all-time highest figure. (Back in 1966, by comparison, it was 22.9.) Rental cars were held 17 months — again, down from 18.9 in '84, but likewise the second-highest ever. Leased trucks followed a similar pattern, being kept for 39 months in '86, compared to 40.2 in '84. (In 1972, the holding term was 42 months.) Rental trucks (like those in leasing, more than half under 10,000 GVW) were in the fleet for 27 months, down from 31.2 two years ago.

Yearly mileage for leased cars was also down slightly, to 20,063 (about average for the last 20 years). Car-rental mileage fell from 18,579 in '84 to 17,934 this year. Leased truck mileage dropped from 29,535 to 25,097 (an all-time low). Rental trucks, meanwhile, went from 24,195 to 20,264 annual miles.

Finally, according to the *AF* survey, the average price of lease/rental cars soared to a new all-time high of $12,380. (Twenty years ago, the average unit in the study cost $2,931!) At the same time, the money these cars generate for their operators each month fell from $646 in 1984 to $530. That's a few bucks more than the typical unit made four years ago.

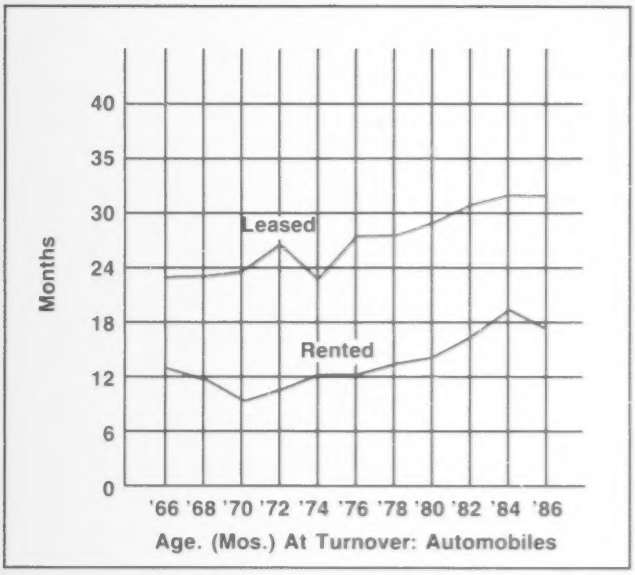
So, lease/rental cars still are being held for relatively long periods, though months in service and average annual mileage shows signs of moving downward. New-car costs are rising. Monthly revenues are not. No wonder the lease/rental operators had a lot to say in our questionnaire about the industry's "biggest problems." For a look at *what* they said (page 34), read on.

Comparison of 1986 Survey Results with Previous Polls

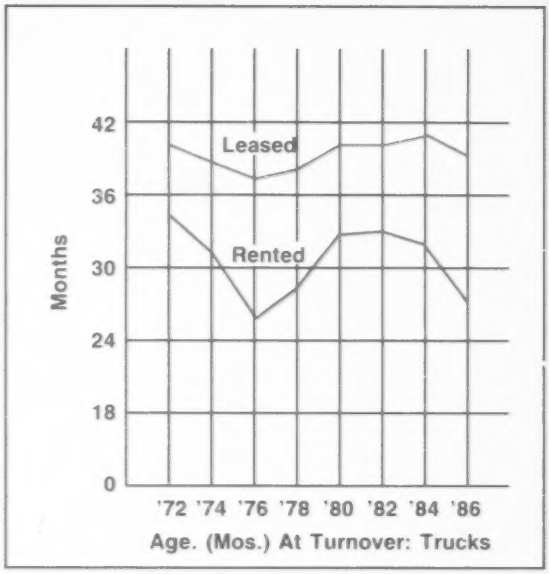
	1986	1984	1982	1980	1978	1976	1974	1972	1970	1968	1966
Survey Return Percentage	8.9%	12.9%	7.8%	14.9%	15%	15%	13%	11%	10%	10.5%	14.3%
Is Company A New Car Dealer Affiliate?											
Yes	32%	26.1%	29.1%	34.9%	41.7%	40.7%	38%	39%	39%	38%	45%
No	68%	73.9%	68.9%	65.1%	58.3%	59.3%	62%	61%	61%	62%	55%
Average Age of Vehicles at Replacement (Months)											
Leasing — Cars	32	32.1	30.7	28.5	26.9	25.9	24.3	25.2	23.7	23.3	22.9
Rental — Cars	17	18.9	16.8	14.5	13.1	13.0	12.6	11.5	10.7	12.1	12.8
Leasing — Trucks	39	40.2	39.3	39.3	37.6	37.5	38.2	41.5	42.5	41.1	n.a.
Rental — Trucks	27	31.2	32.2	32.1	28.5	26.3	31.4	35.1	40.5	38.3	n.a.
Average Yearly Mileage Operated per Vehicle											
Leasing — Cars	20,063	20,579	19,250	20,115	19,870	21,563	20,904	22,244	22,170	21,698	22,761
Rental — Cars	17,934	18,579	18,423	16,294	15,382	13,907	14,361	14,424	13,513	16,207	15,924
Leasing — Trucks	25,097	29,535	30,762	32,159	31,335	32,489	30,484	37,159	36,853	27,717	n.a.
Rental — Trucks	20,264	24,195	25,759	23,391	24,889	22,222	21,421	28,148	28,000	24,082	n.a.
Type of Car Used											
Subcompact	12%	7%	14%								
Compacts	12%	10%	23%	12%	13%	13%	16%	8%	5%	3%	8%
Intermediate	43%	51%	32%	42%	36%	44%	38%	16%	11%	9%	9%
Standard	25%	23%	20%	32%	29%	21%	33%	39%	36%	31%	21%
Luxury	8%	9%	11%	5%	10%	8%	8%	9%	10%	28%	11%
Percentage of Cars Leased	86%	80%	92%	85%	92%	91%	87%	96%	90%	93%	91%
To Fleets	81%	82%	74%	83%	80%	82%	79%	78%	74%	82%	83%
To Individuals	19%	18%	26%	17%	20%	18%	21%	22%	26%	18%	17%
Percentage of Cars Rented	14%	20%	8%	15%	8%	9%	8%	7%	7%	7%	4%
Finance or Management Leasing	59%	58%	69%	73%	82%	75%	72%	76%	62%	56%	62%
Fixed (Net) Leasing	23%	27%	15%	17%	13%	15%	15%	13%	12%	8%	8%
Full or Partial Maintenance	18%	15%	16%	10%	5%	10%	13%	11%	26%	36%	30%
Average Dollar Value	$12,380	$10,467	$9500	$7461	$6343	$5392	$5203	$3987	$3510	$3221	$2931
Average Revenue Per Mo. Per Car	$530	$646	$527	$417	$357	$306	$357	$268	$241	$224	$190
Total Trucks Leased	97%	87%	85%	96%	96%	97%	88%	85%	76%	n.a.	n.a.
Under 10,000	56%	68%	56%	57%	64%	77%	48%	n.a.	n.a.	n.a.	n.a.
(Under 19,500 GVW)	9%	18%	21%	17%	22%	12%	22%	68%	54%	n.a.	n.a.
(Over 19,500 GVW)	35%	14%	23%	26%	14%	11%	30%	32%	46%	n.a.	n.a.
Total Trucks Rented	3%	13%	15%	4%	4%	3%	12%	15%	24%	n.a.	n.a.
Under 10,000	70%	23%	21%	26%	59%	44%	23%	n.a.	n.a.	n.a.	n.a.
(Under 19,500 GVW)	25%	15%	19%	13%	10%	22%	29%	41%	49%	n.a.	n.a.
(Over 19,500 GVW)	5%	62%	60%	61%	31%	34%	48%	59%	51%	n.a.	n.a.

Note: The results of the 1986 Survey of the Leasing and Rental Industry are copyrighted material and, as such, may not be reproduced in any form without consent of the publisher. Reprints are available through our editorial offices: *Automotive Fleet*, 2500 Artesia Blvd, Redondo Beach, CA 90278, Phone (213) 376-8788.

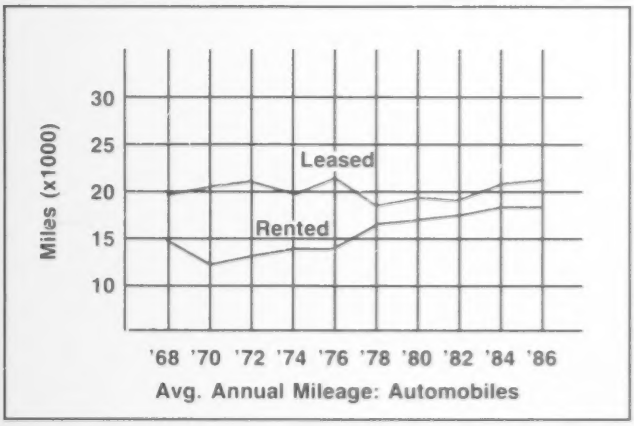
A Summary of Survey Results



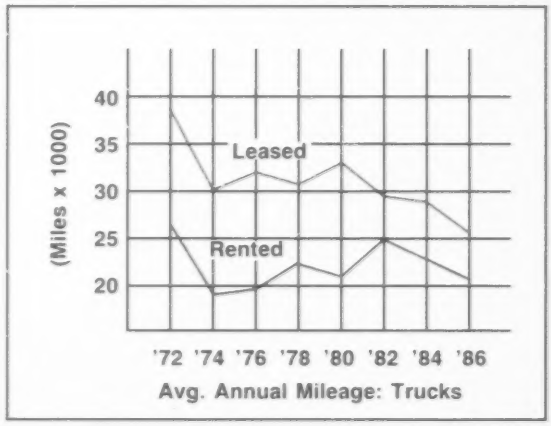
Age. (Mos.) At Turnover: Automobiles



Age. (Mos.) At Turnover: Trucks



Avg. Annual Mileage: Automobiles



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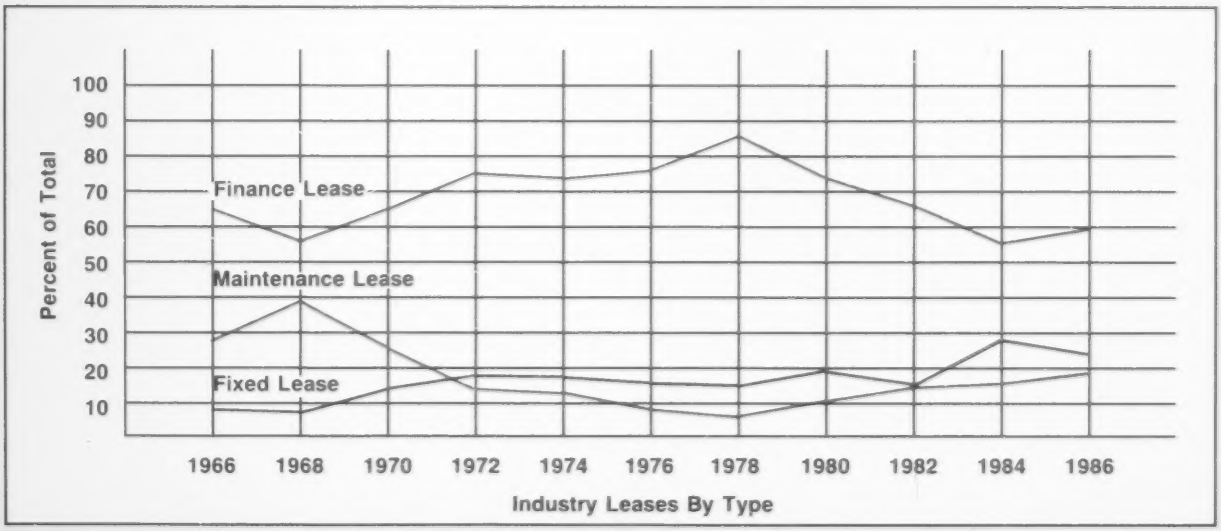

Industry Leases By Type

When survey respondents were asked to name the major problems confronting the leasing and rental industries, the top five concerns were insurance, retail APR incentives, tax reform, the used-car market, and new-car prices.

Leasing and Rental Industry Problems

The overwhelming concern voiced by respondents to *Automotive Fleet's* 1986 Biennial Lease/Rental Survey was the high cost of liability insurance and its lack of availability. Among 282 survey respondents, 50.3 percent cited insurance as the Number One problem within the vehicle leasing and rental industry.

Insurance

"Liability insurance and interim coverage is way out of line," wrote one respondent. The insurance crisis is hitting daily rental companies particularly hard as illustrated in the following comment:

"Large rental companies that are self-insured are driving out the smaller dealer...Locally, several Budget Rent A Car offices have closed down due to the monopolies being formed by the larger rental companies. We have lost 20 percent of our business due to the increased insurance rates that have caused dealers not to be able to afford insurance to cover outside rental customers."

Insurance coupled with the escalating cost of new cars is increasingly placing car-rental operators in a vise-like grip. Small car-rental companies are being squeezed from both ends since they are "unable to raise rental rates because the majors do not raise their prices."

The uncertain availability of insurance coverage together with other uncontrollable factors has caused many lessors to lament about their inability to confidently plan future vehicle acquisitions.

"Our industry seems to be subject to many outside influences which are difficult to adjust to such as the insurance climate, interest rate fluctuation, gasoline availability..." Another respondent wrote: "Due to unpredictable conditions resulting from actions from manufacturers, we lack the ability to plan mid- to long-term."

Others cite the constantly changing legislative and tax environment as keeping both lessor and lessee in an "unsure status."

One lessor stated flatly, "Frequent tax law changes prohibit long-range planning."

Retail Financing Incentives

The second greatest industry concern is the prevalent and dramatic usage of factory-sponsored interest rate incentives to spur new-car sales.

"Low rate financing by the major automotive producers make independent leasing very difficult," says one lessor. The consensus among survey respondents is that these retail APR financing wars have depressed the used car market and adversely affected vehicle lessors and daily rental operators alike.

The survey respondents vented a litany of complaints about factory-sponsored retail financing incentives:

"Financial rates offered by manufacturers that exclude fleet and leasing companies basically put us out of the business for the period of time they are offered and upset our used-car market for four to six months thereafter."

"When major car manufacturers are offering rates at 2.9 percent when we have to pay prime — how can you make a profit?

"General Motors (followed by others) is disrupting the normal, or at least traditional automotive market by using unrealistic interest charges to solve their short range problem. Not only does this virtually kill used car sales, it creates almost unanswerable problems for my securing new leases. My only satisfaction is the belief that they too will pay for their irresponsibility in the next year or so."

Another respondent pointed out that not only are new-car financing incentives affecting lessors, but they are also adversely affecting retail customers.

"Special financing rates offered by auto manufacturers should be challenged as unfair competition because they are misleading the public by adding it back to the price."

Several survey respondents took

swipes at the accuracy of used-car residual guides since many used models are selling at depressed values.

"Leasing's major problem is unrealistically aggressive residual values listed in all residual guides."

"There needs to be accuracy in residual projections because of its effect on payments, mileage and its direct effect on residual at end of term."

Tax Reform

The third greatest concern was about the impact of the Tax Reform Act of 1986 which was signed into law by President Reagan on Oct. 22, 1986. The new federal tax code affects the automobile industry by lengthening vehicle depreciation rates, repealing the Investment Tax Credit, and creating the corporate annual minimum tax. Observes one respondent: "The new law on taxes is going to increase new vehicle leases."

Regarding depreciation one vehicle lessor says: "Depreciation is not at a fast enough rate to equal usage."

Another vehicle lessor grouses that the biggest industry problem is: "The growing popularity of going away from providing 'company cars' where there is still a business application. The new tax law and two-year-old IRS regulations have allowed financial people within corporations (who in most cases do not know the advantages of providing a car, and who do not know much about the fleet business in general) to 'get rid of the liability' or a growing misconception of what helps or hurts the bottom line where fleet is concerned."

Another lessor seconds this observation by writing:

"Tax regulations regarding personal use mileage of company autos have caused many fleet lessees to stop providing company-owned vehicles. This has caused a decline in fleet lessees but has caused an increase in individual lessees."

Used-Car Market

The depressed used-car market and the resulting low resale value for lease vehicles was cited as the fourth most important industry concern. As illustrated in the following comments the unstable used-car market is a prime concern within the industry.

"The used vehicle is dropping in value faster in 1986 than ever before and is becoming more costly. Holding costs are increasing dramatically while rental rates are holding steady."

Another lessor complains: "There is insufficient compensation to cover reduced value of one- and two-year-old vehicles at disposal. The low-interest programs on manufacturer closeout are wiping out used-car values."

New-Car Prices

The fifth greatest industry concern is the escalating prices for new-model vehicles. One vehicle lessor said his Number One concern was: "Fighting the never ending battle of new vehicle price increases." Another lessor comments: "Manufacturers continue to increase the cost of new vehicles in excess of living increases. The problem is compounded when manufacturers offer deep discounts or below-market interest rates to the general public. These actions make leasing less competitive and affect the return on disposition of used lease-vehicles creating unpredictable operations."

Other Industry Concerns

Leasing competition is increasingly coming from banks. Since deregulation, financial institutions continue to be a concern to many vehicle lessors.

Here's a sampling: "Get banks back to banking. Leasing belongs to the auto industry. They just mess up the market and do not give the attention or service that lessees deserve."

Echoing this sentiment, another lessor says:

"The major problem is the manufacturing and lending institutions are getting stronger in direct leasing programs. Actually the dealer is being encouraged to become a broker rather than a full-service lease company."

Not long ago when the economy turned sour, banks backed away from auto financing and leasing. This fickle commitment to vehicle leasing caused one lessor to write:

"Financial institutions in the market today will exit tomorrow because they believe the values of used vehicles are determined solely by a mathematical calculation."

Another trend that is having an adverse effect on small fleet buyers is the high cost of financing. "The price of financing on new cars for individual buyers and the high price of financing for small fleet buyers."

Another lessor also complained about the high interest rates extended by banks.

"Banks have now formed their own control of availability of money to increase their leasing base by asking independent leasing companies for outrageous rates to borrow money for their leasing business." Another lessor writes: "Banks enter leasing with unreasonable residuals and dealers exploit those residuals and terms by offering 99-month payments to consumers and not thinking of satisfying the consumer's needs for leasing."

Conclusion

According to some survey respondents the future does not bode well for the small vehicle lessor.

"The survival of the small independent lease company is the biggest problem today. Competition from the financial and manufacturing industries hurts the smaller independent the most because they are forced to buy directly from their competition. Without the buying power that the manufacturer and financial industry can bring to bear, the smaller independent lease company will have a hard time hanging on."

Disastrous pricing practices and excessive jury awards have combined to send liability insurance rates right through the roof. Even so, our industry can do several things to deal effectively with its Number One problem.

Coping With the Insurance Crisis

This magazine's Thirteenth Biennial Lease/Rental Survey (page 28) shows that insurance is still the industry's Number One problem. Why did the insurance companies' capacity to write business shrink so dramatically in recent years? Precisely how has that affected our industry? What can be done about rising rates? In the following article, adapted from a seminar presented recently by the American Automotive Leasing Association, experts provide some timely answers.

Seminar participants include (from left), Scudieri; Lee Carter of Alexander & Alexander in Dallas, TX; Loftus; Brown; and Grossman. Carter's firm currently is surveying AALA members about the feasibility of a competitive, reasonably priced group insurance program.

Andrew Grossman: The cause of the liability insurance crisis we face today may never be identified with certainty. Some say it's a conspiracy of the large insurance companies to control supplies and reap obscene profits during a Republican administration that is very *laissez faire*. Republicans says it merely reflects a fundamental block in the legal system, with jury awards going totally out of sight. There are many issues related to the problem. Do we need fundamental reform of our legal system? Would government regulation of the insurance industry be the answer? Whatever the broader solution, changes in our individual businesses will be required to truly control the crisis at our level.

Participants on this panel will identify some of the key elements of this important issue. They include: Sal Scudieri, president of Group Management and Merchandising International, Inc., of New York; Harriet Loftus, assistant vice president-insurance for CFR Leasing Corp. of New Castle, DE; and Doug Brown, vice president of Enterprise Leasing, St. Louis, MO.

Sal Scudieri: I realize that most of you will probably find this hard to believe, but at one time insurance pricing was very predictable both for the insurance buyer and the insurance company. If everything had gone according to schedule, 1984 would have been a banner year for property/casualty companies. Blowout: something went wrong.

Over the past quarter century, the base for insurance pricing has been on a six-year cycle, with highs and lows occurring approximately every three years. Typically, the cycle was as follows: Insurance companies enjoying high profits (which came about through high rates) would be in a position that would attract outside competitors into the property/casualty market. The outside competitors, in turn, would

create a price war that would drive down rates. Increased losses would follow, competitors would move out, rates would go back up, and profits would increase. This was the industry's basic cycle, and it would last approximately six years: three years on the high cycle, three years on the low.

The problems we have today began with the 1978 cycle. In 1978, the combined loss ratio of property/casualty companies was 97.4 percent. (Loss ratios reveal losses on claims as a percent of premiums written. A ratio of 100 indicates no loss and no gain, therefore, zero profitability. A ratio below 100 indicates a positive cash flow. A ratio above 100 indicates that claim payouts are greater than premiums taken in, thus, a net loss.)

Operating profits in 1978, then, were at $8.5 billion, and things were looking good for the insurance companies. The cycle then began to go the other way. New competitors came into the market and the rates were driven down. In 1981, the scene was set for a change in the cycle.

Here's what happened in 1981: Industry statistics for the year-end show a combined loss ratio of 106 percent. This was in accordance with the way things had happened in the past. However, the prime interest rate soared that year to 18 percent. Instead of responding to the 106 percent loss ratio and beginning to increase their rates, the companies jumped on the very high prime and touched off a prolonged price war. Rate-cutting became fierce; the market was filled with excess capacity, and, as a result, the downward cycle lasted another three years. By year-end '84, with the prime rate at 12 percent, the combined loss ratio for the industry was 117.9 percent, and operating *losses* were $3.8 billion.

For only the second time in insurance company history, investment income would not offset the underwriting losses. What followed was a complete disaster. Forty insurance companies became insolvent, 90 reinsurers pulled out of the U.S. market, and A.M. Best Co. reduced its rating on some 55 companies.

Year	Prime rate	Combined ratio	Operating results (billions)
1978	9.06	97.44	$8.59
1979	12.67	100.60	7.98
1980	15.27	103.13	7.73
1981	18.87	106.01	6.96
1982	14.86	109.67	4.62
1983	10.79	111.99	2.65
1984	12.04	117.96	-3.82
1985	9.93	116.39	-5.40

Source: Insurance Information Institute

Additionally, things were getting completely out of hand with a civil justice system marked by too many lawsuits, excessive awards, and radical reinterpretations of policy conditions. Combine the disastrous underwriter results with the present judicial system, and the end result was that few insurance companies or reinsurers were willing to write commercial property/casualty business. In essence, capacity — or the insurance company's ability to write business — has shriveled. Insurance companies will only commit their capacity to profitable accounts, demanding high rates.

The insurance market for leasing companies today is similar to what it was in the past — except that it costs you more money. There are insurance companies willing to underwrite your coverage. However, if you are looking for low primary insurance rates for your lessees (which would allow you in turn to increase your profit margins), be aware that those days are gone for a long, long time. Primary insurance coverage is available either to you or your lessee; contingent and excess coverage is also available. You can buy or have your lessee buy the coverage, but it now will cost you more money.

Harriet Loftus: The purpose of insurance, of course, is to fund potential losses which could threaten the continued existence of our businesses. It is a financing technique, albeit one that has been reaching deeper and deeper into our pockets of late, affecting our daily business.

Some relief — including tort reform — is on the way. However, tort reform will take years to effect meaningful improvements in rate reduction and stabilization. In addition, there is not much consistency among the reforms that various states have enacted. While statutory rate rollbacks are currently being contested (in Florida, for instance), I believe rates will remain near their current levels for the foreseeable future.

With insurers pulling away from certain lines of business — such as automobile leasing — our choices are restricted in terms of both availability and affordability. Because of the tight overall market, there are certain exposures we contractually transfer which are coming right back to us. Some examples: Lessees who previously supplied their own insurance are being cancelled mid-term or nonrenewed; some are going without coverage for a period of time while scrambling to secure proper coverage, thus leaving contingent exposure wide-open for us lessors.

I don't feel we have all the answers, but there are some alternatives to look

at. It's up to all of us to see that these alternatives are examined in a complete and positive manner. What are some of the ways, then, to deal with this crisis?

The most important way is through some sort of risk management program. It doesn't have to be sophisticated, for even a simple one can bring positive results. Consider cost-control techniques; look into taking a large deductible or one that your company can feasibly handle. Any liability retention you could absorb would certainly reduce your premium. There are insurers who are willing to write coverage for leasing companies and who are willing to take a retention of some level. Also, tighten up on loss prevention and reduction procedures, both for your executives and your lessees. Education is an effective tool, not only in-house education, but also through newsletters to your lessees on a monthly, annual, or even semi-annual basis. Your lessees who do not have any risk management program may find such information extremely helpful as well.

Closely scrutinize your loss information from your carrier. When you receive your loss experience, look it over closely. Make sure those claims listed on your loss experience really do belong to you, and not to some other client with the same insurer. You should receive loss information from your insurer on a regular basis every six months. Communicate with your insurer when potential high dollar claims are submitted. Communication can have an impact on reducing their claim dollars — it's these claim dollars which affect your next year's rates. Get your broker more involved. Their resources are many and varied in the field of loss control.

Another alternative lies within the leasing industry itself. That is the possibility of forming through AALA an association comprised of AALA members to purchase insurance "in bulk." This is being considered, and soon we will all be receiving a survey sheet from AALA on this. Your input will enable AALA to determine our needs and then pursue the possibility of an association. It is possible to gain a marketing edge, have better underwriting control, and obtain the much-needed coverages we lessors all require. Through an association, we could provide insurance to our lessees on a competitive basis — and, importantly, make money on it.

Doug Brown: There's some good news today: the good news is that we're here, and a lot of folks who've faced this crisis aren't.

At Enterprise, we've just completed our most difficult renewal ever. Over a period of years, we were able to bring all of our different coverages together on our annual renewal date of Sept. 1. After bringing all liability/casualty exposures together at that common date, we decided we needed to go back to each of our carriers and brokerage houses and ask for careful loss-run information for the past five

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years. We'd paid some attention to this information over time, but we'd never really studied it carefully. But in 1986, in this environment, we determined to study each and every loss. We took the five years of losses and put it into book-type form so that each of our brokers and carriers could see the entirety of our five-year experience. Then we asked each of them to project for us our losses for the coming year. We also hired an outside consultant to do a loss projection. That way, when we went into the '86 negotiation, we were able to understand what we believed our losses would be for the next 12 months.

We then decided that the time had come to forget friendships and long-term loyalties in our relationships with carriers and brokers — if, in fact, they could not provide reasonable coverage at reasonable prices. That wasn't an easy decision for us, because Fireman's Fund, for instance, had been a supplier to us for 28 years for general liability and auto liability; Travelers had 17 years handling most of our rent-a-car and lease liability coverage. Therefore, we knew that choosing what would ultimately be a single carrier would be tough.

Then we announced to our brokers and carriers that upon renewal, unless the differential was very small, we in fact would put all of our liability coverage with a single broker, with a single carrier, and hopefully give them some reliability. The major thing the insurance companies are looking for is reliability in claims; and unfortunately, the more losses you have, the more reliable your information is going to be.

We also told them some things were very important to us. (And these are things you might want to consider, too.) We said we were willing to take a very high deductible. Maybe you can't take a very high deductible, but deductibles on liability *are* available with the right structure. By doing this, we felt we were putting our money where our mouth was. The second thing we did was promise that one carrier would get all this exposure and one broker would likely win this account.

The big thing we wanted to do was understand the carrier of choice; understand where they'd been on our kind of risks over time, and where they'd be in the future. To accomplish that, we said we would accept no quotations from a carrier with whom we could not meet in their shop, and have them come to our place of business. We felt they had to understand our needs, too, and give us some good input.

Soon, we had seven very interested carriers. Forty days before the renewal we had three who, in this environment, were slugging it out for our business. We feel that is because they understood that we had a handle on our losses; that we understood the problems we'd had in the past and how we would address them in the future; and that we had taken the significant position in those losses with our deductible portion.

We gained a very satisfactory result. We're now thrilled to death with our carrier and broker of choice. While we don't think it's the end-all, we understand our situation a lot better than we did a year or two ago, when we thought we knew a lot.

Here are some additional thoughts on this whole question of insurance in 1987:

In today's difficult market, we must pay more attention to safety measures and the related risks that push up our claims and premiums. No matter how recently you've taken steps to reduce risk, do it again!

You must start with the assumption that all accidents are preventable. Instead of chalking up accidents to employee error, analyze, dig deeply, understand the underlying cause.

For example, if you carefully check the last 10 auto accidents reported by your employees, you'll probably find several whose driving records are such that they're either paying extra premium on their private cars, or they would be very difficult to insure if they were in the insurance market for a personal car. Drivers who don't meet a reasonable test for driving safety should not be allowed to drive company cars. Seat belts should be mandatory. Use of radar detectors and other such devices should subject the employee to termination when used in company vehicles.

You should also judge your company based on both insurance cost as a percentage of sales, and insurance cost per employee. Compare these statistics with anything available on other leasing firms, through trade associations, or through informal conversation with other similar companies.

When you learn the results, you should be 50 percent of the average because average represents both well managed and poorly managed safety programs. For you to assume anything less than well managed is a mistake.

If you have moved to large deductibles, or if you're uninsured for certain portions of your claims, you must have expert review of the investigation, negotiation, and settlement of those claims. Even when your carrier covers the losses, it's important to review their claims management. After all, future years' premium is based in large part on this year's losses.

Never wait for your broker to approach you about renewal, unless of course he's doing so three or four months before your policy date. You need this much time to press for quotes since carriers are so busy today.

Consider making renewal dates sometime in March/April or September/October. Consider other alternatives such as professional associations, industry pools, or no coverage at all for things that in reality don't concern you and can't break your company financially. Also, don't overlook the possibility of cutting out the broker if necessary. There are insurance companies that are direct writers (such as Liberty Mutual) and some other mutual companies.

Finally, consider negotiating a flat fee with your broker as opposed to a percentage commission, which has been the industry standard. Not only does a flat fee eliminate the peaks and valleys for your broker, but over time will probably cost you less and allow you to measure the true cost of insurance on a net basis. AF

USED CARS

The following are average car prices ending December 10, 1986. Prices are based on wholesale activity at major dealers across the country. They are divided into three zones as indicated on the accompanying map. These averages are calculated electronically in IBM machines. They are based on clean cars only. Proper allowance should be made for upgrading sharp cars and proper deduction taken for fair cars. Automatic transmissions have been included in the averages of all models. This information is published in *Automotive Fleet* by special permission of Automotive Market Report.

Model	Zone 1	Zone 2	Zone 3
83 AMC ALLIANCE			
Sdn 4 Dr L Series	2345	2369	2297
83 AMC CONCORD			
Sdn	2573	2598	2521
Sta Wgn	2862	2850	2804
83 BUICK SKYLARK			
Sdn Custom	3041	3072	2980
82 BUICK SKYLARK			
Sdn	2493	2518	2442
83 BUICK REGAL			
Sdn	4562	4608	4472
Cpe	4691	4739	4598
82 BUICK REGAL			
Turbo Cpe	4038	4079	3958
Cpe	3910	3950	3831
83 BUICK CENTURY			
Sdn Custom	4429	4474	4340
82 BUICK CENTURY			
Sdn Custom	3630	3668	3558
83 CADILLAC			
Cpe DeVille	7334	7407	7188
Sdn DeVille	7292	7365	7146
82 CADILLAC			
Cpe DeVille	5819	5878	5704
Sdn DeVille	5779	5836	5662
83 CHEVY			
Chvt Htchbk 4 Dr	2098	2119	2056
Camaro Cpe 8	4976	5025	4876
82 CHEVY			
Chvt Htchbk 4 Dr	1640	1656	1607
Camaro Cpe 8	4258	4302	4174
83 CHEVY CELEBRITY			
Sdn	3863	3903	3786
82 CHEVY CELEBRITY			
Sdn	3110	3140	3048
83 CHEVY CAVALIER			
Sdn	3107	3138	3044
82 CHEVY CAVALIER			
Sdn	2086	2107	2044
83 CHEVY CITATION			
Cpe 6	2329	2353	2283
82 CHEVY CITATION			
Cpe 6	1777	1796	1741
83 CHEVY MALIBU			
Clas Sdn	3563	3598	3491
Clas Sta Wgn	3711	3748	3637
82 CHEVY MALIBU			
Clas Sdn	2936	2965	2877
Clas Sta Wgn	3065	3096	3005
83 CHEVY MONTE CARLO			
Cpe	4647	4694	4554
82 CHEVY MONTE CARLO			
Cpe	3745	3783	3671
83 CHEVY IMPALA			
Sdn	4140	4181	4057
82 CHEVY IMPALA			
Sdn	3168	3199	3104
Wgn 9	3292	3325	3226
83 CHEVY CAPRICE			
Sdn	4707	4754	4612
Sta Wgn	4870	4919	4773

Model	Zone 1	Zone 2	Zone 3
83 CHRYSLER			
E-Class Sdn	3888	3926	3810
82 CHRYSLER			
New Yorker Sdn	4616	4663	4524
83 DODGE OMNI			
4 Dr Cust	2558	2585	2507
82 DODGE OMNI			
4 Dr Cust	2006	2025	1965
83 DODGE ARIES			
Cpe	2528	2554	2478
82 DODGE ARIES			
Sdn	1914	1933	1876
83 DODGE DIPLOMAT			
Sln Sdn	3106	3137	3044
82 DODGE DIPLOMAT			
Sln Sdn	2479	2504	2429
83 FORD FAIRMONT			
Futura 6-Cyl Sdn 4 Dr	2697	2725	2643
82 FORD FAIRMONT			
Futura Sdn 4 Dr	2102	2122	2060
83 FORD MUSTANG			
L-Cpe 4	3600	3636	3527
82 FORD MUSTANG			
L-Cpe 4	2806	2834	2749
83 FORD LTD			
Sdn	3110	3141	3048
82 FORD LTD			
Sdn	3206	3238	3142
83 FORD ESCORT			
Htchbk 4 Dr	2491	2517	2441
83 FORD CROWN VIC			
Sdn	5308	5360	5200
82 FORD CROWN VIC			
Sdn	3798	3836	3721
83 FORD THUNDERBIRD			
Cpe	4871	4920	4774
82 FORD THUNDERBIRD			
Cpe	3632	3669	3559
83 LINCOLN CONTINENTAL			
Sdn	9409	9504	9221
Mark VI Cpe	9536	9632	9346
82 LINCOLN CONTINENTAL			
Sdn	7427	7501	7277
Mark VI Cpe	7614	7690	7461
83 MERCURY COUGAR			
Cpe	4956	5005	4858
82 MERCURY COUGAR			
GS Cpe	2575	2600	2523
83 MERCURY LYNX			
HtchBk 2-Dr	2461	2484	2412
83 MERCURY MARQUIS			
Sdn	3148	3179	3084
82 MERCURY MARQUIS			
Sdn	3513	3548	3443
Wgn-2S	3622	3659	3550
83 OLDS CIERA LS			
Cpe	4366	4410	4279
Sdn	4422	4467	4333

Model	Zone 1	Zone 2	Zone 3
83 OLDS CUTLASS SUPREME			
Cpe	4965	5014	4867
Sdn	4826	4875	4730
82 OLDS CUTLASS SUPREME			
Sdn	3962	4002	3883
Cpe	4016	4158	4034
83 OLDS DELTA 88			
Sdn	4661	4707	4567
82 OLDS DELTA 88			
Sdn	3885	3923	3808
83 OLDS DELTA 98			
Sdn	6429	6494	6301
82 OLDS DELTA 98			
Sdn	5093	5144	4991
83 OLDS OMEGA			
Sdn	3041	3072	2980
82 OLDS OMEGA			
Sdn	2493	2518	2442
83 OLDS FIRENZA			
Sdn	3460	3495	3390
82 OLDS FIRENZA			
Sdn	2772	2800	2717
83 PLYMOUTH HORIZON			
4 Dr Htchbk	2500	2525	2449
83 PLYMOUTH RELIANT			
Cpe	2536	2561	2486
82 PLYMOUTH RELIANT			
Cpe	1899	1918	1861
83 PONTIAC FIREBIRD			
Cpe 8	5003	5053	4903
83 PONTIAC 6000			
Cpe	4020	4061	3940
Sdn	4073	4113	3992
82 PONTIAC 6000			
Cpe	3307	3339	3241
83 PONTIAC GRAND PRIX			
Cpe	4794	4842	4699
83 VOLKSWAGEN JETTA			
4 Dr Sdn	4057	4098	3976
82 VOLKSWAGEN JETTA			
4 Dr Sdn	3253	3286	2188
83 VOLKSWAGEN L SERIES			
2 Dr Htchbk	2970	3000	2911
82 VOLKSWAGEN RABBIT			
2 Dr Htchbk	2191	2213	2147
83 DATSUN			
Sentra 2 Dr Std Sdn	2333	2356	2286
Stanza Hbk 4 Dr Dlx	3297	3330	3231
82 DATSUN			
210 Std 2 Dr	1673	1690	1640
Sentra 2 Dr	1895	1914	1857
Stanza Hbk 4 Dr Dlx	2579	2605	2527
83 TOYOTA			
Corolla Sedan 2 Dr	3093	3124	3031
Celica St	4428	4472	4339
Camry Sedan	5028	5078	4927
82 TOYOTA			
Corolla 2 Dr Sdn	2363	2387	2316
Celica St Cpe	3488	3523	3418

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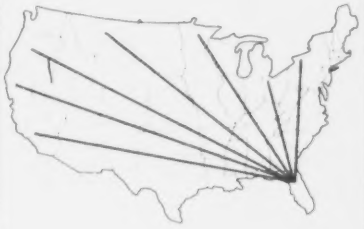

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City	UNLEADED Cost Per Gallon Unleaded Full-Serve	Self-Serve
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Alhambra, CA	111.9	74.9
Denver, CO	120.7	85.7
Jacksonville, FL	114.9	81.2
Macon, GA	111.4	72.9
Worcester, MA	89.4	70.9
Flint, MI	105.6	79.4
Flat River, MO	97.9	67.4
Jamestown, ND	127.9	89.9
Reno, NV	126.4	105.4
Brooklyn, NY	91.2	76.9
Uniontown, PA	100.5	72.9
Memphis, TN	108.9	77.7
San Antonio, TX	94.9	66.4
Milwaukee, WI	106.1	80.7

Survey conducted during the first five working days of December 1986.
Supplied by Runzheimer International, Runzheimer Park, Rochester, WI.